

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Leelanau County Road Commission	County Leelanau
Fiscal Year End December 31, 2006	Opinion Date March 12, 2007	Date Audit Report Submitted to State March 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
☒

☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature 		Printed Name Phillip J. Wolf, CPA	License Number 1101017275

LEELANAU COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

December 31, 2006

LEELANAU COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Lee A. Bowen
Chairman

John Popa
Vice - Chairman

Glen Noonan
Member

James Johnson
Engineer

Joel Nedow
Clerk

Herbert Cradduck
Superintendent / Manager

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Leelanau County Road Commission
10550 E. Eckerle Road
Suttons Bay, Michigan 49682

We have audited the accompanying financial statements of the governmental activities and major fund of the Leelanau County Road Commission (a component unit of the County of Leelanau, Michigan) as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Leelanau County Road Commission as of December 31, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2007 on our consideration of the Leelanau County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 and budgetary comparisons as listed in the table of contents are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leelanau County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 12, 2007

Management's Discussion and Analysis

Using This Annual Report

The Leelanau County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 10. The fund financial statements begin on page 24 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 4.04% from \$22.8 million to \$23.7 million for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements decreased by 7.4%. Restricted net assets, those restricted mainly for Act 51 purposes, increased \$1.05 million. The primary reason for the increases was an increase in federal and state support for road projects.

It is important for the reader to realize that the increase in net assets is largely a result of the road commission electing to report infrastructure assets for the prior years. Infrastructure provisions of GASB 34 have been implemented for the current year as well.

Net assets as of the year ended December 31, 2005 and 2006 follows:

	Governmental Activities	
	2005	2006
Current Assets	\$ 2,370,425	\$ 2,377,463
Capital Assets	<u>21,082,293</u>	<u>22,130,155</u>
Total Assets	<u>\$ 23,452,718</u>	<u>\$ 24,507,618</u>
Current Liabilities	\$ 485,829	\$ 613,024
Long-Term Liabilities	<u>169,868</u>	<u>176,862</u>
Total Liabilities	<u>655,697</u>	<u>789,886</u>
Net Assets		
Invested in Capital Assets	21,082,293	22,130,155
Unrestricted	<u>1,714,728</u>	<u>1,587,577</u>
Total Net Assets	<u>\$ 22,797,021</u>	<u>\$ 23,717,732</u>

A summary of changes in net assets for the years ended December 31, 2005 and 2006 follows:

	Governmental Activities	
	2005	2006
Program Revenues		
Charges for Services	\$ 1,297,400	\$ 1,035,303
Grants and Contributions	3,864,761	3,086,909
General Revenues		
Taxes	844,990	945,971
Interest Income and Other	118,559	113,062
Gain on Sales	<u>130,669</u>	<u>32,044</u>
Total Revenues	<u>6,256,379</u>	<u>5,213,289</u>
Program Expenses		
Primary Roads	1,179,808	1,355,661
Local Roads	1,585,268	1,993,088
State Trunkline	809,333	606,104
Equipment Expense	256,435	105,169
Administrative	198,019	225,563
Other	<u>6,562</u>	<u>6,994</u>
Total Expenses	<u>4,035,425</u>	<u>4,292,579</u>
Changes in Net Assets	2,220,954	920,710
Net Assets – Beginning of Year	<u>20,576,068</u>	<u>22,797,022</u>
Net Assets – End of Year	<u>\$ 22,797,022</u>	<u>\$ 23,717,732</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2006, the fund balance of the general operations fund decreased \$216 thousand as compared to a decrease of \$210 thousand in the fund balance for the prior year. Total revenues were \$5.1 million, a decrease of \$1.09 million as compared to last year. This change in revenues resulted primarily from decreases in state and federal sources.

Total expenditures were \$5.3 million, a decrease of \$1.09 million as compared to last year. This change in expenditures is primarily the decrease in preservation costs in the current year. The road commission incurred a decrease in capital outlay.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2006 was lower than the actual receipts by \$118,918. This was due, in part, to the projection of state grants applied to road preservation projects. The road commission budgets for the receipt of funds from townships and others for projects on local roads. This year, the revenue from trunkline and other contributions was lower than projected in the amount of \$93,818.

Road Commission expenditures were projected at \$6 million while actual expenditures were \$5.3 million. This resulted in total expenditures under budget by \$668 thousand. There were several areas that account for most of the variance in the projection of the budget. A share of the variance is in the area of primary and local road preservation. Our engineering and maintenance departments projected that work in these various areas would be completed; however, weather and other factors combined to limit the amount of work that could be completed prior to year end.

Capital Assets

As of December 31, 2006, the road commission had \$22,130,155 invested in capital assets as follows:

	<u>2005</u>	<u>2006</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 6,455,789	\$ 7,115,543
Other Capital Assets		
Buildings and Improvements	1,605,505	1,605,505
Road Equipment	7,385,081	7,930,242
Other Equipment	817,364	817,938
Infrastructure and Improvements	<u>15,257,208</u>	<u>16,320,770</u>
Total Capital Assets at Historic Cost	31,520,947	33,789,998
Total Accumulated Depreciation	<u>(10,438,654)</u>	<u>(11,659,843)</u>
Total Net Capital Assets	<u>\$ 21,082,293</u>	<u>\$ 22,130,155</u>

Current year's major additions included the following:

Various Resurfacing Projects	<u>\$ 2,069,532</u>	<u>\$ 1,723,316</u>
Trucks/Equipment	<u>\$ 859,489</u>	<u>\$ 825,307</u>

Debt

The road commission currently has long-term debt in the amount of \$176,862 which represents sick and vacation pay due to employees. Additionally, the Commission repaid an advance from the County of Leelanau during January 2007 for \$200,000.

Economic Factors and Next Year's Budget

The board of county road commissioner's considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The road commission derives approximately 70% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Leelanau County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Leelanau County Road Commission administrative offices at 10550 E. Eckerle Road, Suttons Bay, Michigan 49682.

Basic Financial Statements

Leelanau County Road Commission

Statement of Net Assets December 31, 2006

ASSETS

Cash and Equivalents	\$ 472,338
Accounts Receivable:	
Taxes Receivable	813,540
Michigan Transportation Fund	410,447
State – Other	15,188
Sundry Accounts	22,607
Trunkline Maintenance	163,444
Inventories:	
Road Materials	348,807
Equipment, Parts and Materials	93,332
Prepaid Expenses	37,760
Capital Assets (Net of Accumulated Depreciation)	<u>22,130,155</u>
Total Assets	<u>\$ 24,507,618</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 43,392
Escrow Payable	8,536
Accrued Liabilities	22,386
Advances from State	338,710
Due to County	200,000
Noncurrent Liabilities:	
Vested Employee Benefits	<u>176,862</u>
Total Liabilities	<u>789,886</u>

NET ASSETS

Investment in Capital Assets	22,130,155
Restricted for County Road	<u>1,587,577</u>
Total Net Assets	<u>\$ 23,717,732</u>

Leelanau County Road Commission

Statement of Activities For the Year Ended December 31, 2006

Program Expenses:

Primary Road Maintenance and Preventive Maintenance	\$ 1,355,661
Local Road Maintenance and Preventive Maintenance	1,993,088
State Trunkline Maintenance	606,104
Net Equipment Expense	105,169
Net Administrative Expense	225,563
Compensated Absences	<u>6,994</u>

Total Program Expenses	<u>4,292,579</u>
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Program Revenues:

Charges for Services:	
License and Permits	11,610
Charges for Services	779,066
Operating Grants and Contributions:	
Michigan Transportation Funds	2,846,231
Investment Earnings	29,616
Capital Grants and Contributions:	
Federal Grants	197,007
State Grants	43,671
Contributions from Local Units	29,573
Contributions from Private Sources	<u>298,500</u>

Total Program Revenues	<u>4,235,274</u>
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Net Program Revenues (Expenses)	<u>(57,305)</u>
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General Revenues:

Property Taxes	945,971
Gain on Equipment Disposal	<u>32,044</u>

Total General Revenues	<u>978,015</u>
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Changes in Net Assets	920,710
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Net Assets – Beginning of Year	<u>22,797,022</u>
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Net Assets – End of Year	<u>\$ 23,717,732</u>
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Leelanau County Road Commission

Balance Sheet December 31, 2006

	Governmental Fund Type General Operating Fund
<u>ASSETS</u>	
Cash and Equivalents	\$ 472,338
Accounts Receivable:	
Taxes Receivable	813,540
Michigan Transportation Fund	410,447
State Trunkline Maintenance	163,444
State – Other	15,188
Sundry Accounts	22,607
Inventories:	
Road Materials	348,807
Equipment, Parts and Materials	93,332
Prepaid Expenses	<u>37,760</u>
Total Assets	<u>\$ 2,377,463</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Accounts Payable	\$ 43,392
Accrued Liabilities	22,386
Escrow Payable	8,536
Due to County	200,000
Advances from State	338,710
Deferred Revenue	<u>943,011</u>
Total Liabilities	<u>1,556,035</u>
Fund Equities:	
Fund Balance	
Unreserved and Undesignated	<u>821,428</u>
Total Fund Equities	<u>821,428</u>
Total Liabilities and Fund Equities	<u>\$ 2,377,463</u>

**Reconciliation of the Balance Sheet Fund
Balance to the Statement of Net Assets
For the Year Ended December 31, 2006**

Total Governmental Fund Balance	\$ 821,428
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,130,155
Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(176,862)
The 2006 tax levy is not considered "available governmental funds" but is considered earned and recognized as revenue.	<u>943,011</u>
Net Assets of Governmental Activities	<u>\$ 23,717,732</u>

Leelanau County Road Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2006

	General Operating Fund
Revenues	
Property Taxes	\$ 849,600
License and Permits	11,610
Federal Sources	197,007
State Sources	2,889,902
Contributions from Local Units	29,573
Charges for Services	695,620
Interest and Rents	113,062
Other Revenue	<u>330,544</u>
Total Revenues	<u>5,116,918</u>
Expenditures	
Public Works	5,275,554
Capital Outlay	<u>57,893</u>
Total Expenditures	<u>5,333,447</u>
Excess of Revenues Over (Under) Expenditures	(216,529)
Fund Balance – January 1, 2006	<u>1,037,957</u>
Fund Balance – December 31, 2006	<u>\$ 821,428</u>

Leelanau County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2006

Net Change in Fund Balance – Total Governmental Funds	\$ (216,529)
Amounts reported for governmental activities in the statements are different because:	
Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,047,862
Net increase in tax revenue between 2006 levy and 2005 tax levy collected.	96,371
Compensated absence expenditures do not require the use of current financial resources and therefore are not reported as governmental fund expenditures.	<u>(6,994)</u>
Change in Net Assets of Governmental Activities	<u>\$ 920,710</u>

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Leelanau County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Leelanau County Road Commission.

A. Reporting Entity

The Leelanau County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners elected by the voters of Leelanau County. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' and voter approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Leelanau County Road Commission, a discretely presented component unit of Leelanau County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Leelanau County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The operating fund is the only major fund of the Commission.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits and investments are carried at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Property Taxes Receivable

The property tax is levied each December 1st. on the taxable valuation of property located in the County as of the preceding December 1st. The 2006 taxable valuation of the Leelanau County Road Commission amounted to \$998,301 less \$63,507 for incorporated cities and villages, on which ad valorem taxes of 0.5 mills were levied for the Road Commission for road construction purposes.

In the government-wide financial statements, the tax is recorded as revenue when the tax is levied in the current year.

Although the County's 2006 ad valorem tax is levied and collectible December 1, 2006, it is the Road Commission's policy to recognize revenues from the current tax levy in the subsequent year. When the proceeds of this levy are budgeted and made available for the financing of the Road Commission's operations in the governmental fund financial statements. The tax receivable is offset to deferred revenue.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Leelanau County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Leelanau County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 20 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)Vacation

Employees earn vacation hours according to union contract. Upon termination, death or retirement, employees are paid for their remaining vacation hours at their current rate of pay.

Sick Leave

Employees may accumulate a maximum of 600 hours of sick leave. Upon death or retirement, employees are paid for 50% of their accumulated sick hours to a maximum of 280 hours at their current rate of pay.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Clerk and Manager prepare a budget in accordance with the Act which is adopted by the Board at a public hearing each December. All budgets lapse at fiscal year end.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are listed in the Budgetary Comparison Schedule – Statement of Expenditures in violation of the Act.

NOTE 3 - CASH AND DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

	<u>Carrying Value</u>
Cash and Equivalents	
Petty Cash	\$ 100
Municipal Money Funds	<u>472,238</u>
Total	<u>\$ 472,338</u>

Interest rate risk. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Road Commission has directed the County Treasurer to invest its funds in accordance with State law and policy.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices. Credit quality ratings of money funds were not available by the financial institution or are unrated. The Road Commission has directed the County Treasurer to invest its funds in accordance with State law and policy.

NOTE 3 - CASH AND DEPOSITS (Continued)

Custodial investment credit risk. Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission invests with the County of Leelanau and would receive its proportional share of holdings as regulated by the FDIC.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, none of the Commission's bank balance of was exposed to credit risk because it was uninsured and uncollateralized. The Commission has directed the County Treasurer to deposit its funds in accordance with State law and policy.

Concentrations. The Commissions money market funds are concentrated public money funds maintained in a single financial institution.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Leelanau County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Leelanau County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Leelanau County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Leelanau County Road Commission for the current year was as follows:

	Beginning Balances 01/01/06	Additions	Adjustments/ Deductions	Ending Balances 12/31/06
<i>Capital Assets Not Being Depreciated</i>				
Land and Improvements	\$ 37,276	\$ -	\$ -	\$ 37,276
Land Improvements - Infrastructure	6,418,513	659,754	-	7,078,267
Subtotal	6,455,789	659,754	-	7,115,543
<i>Capital Assets Being Depreciated</i>				
Land Improvements	52,064	-	-	52,064
Buildings	1,553,441	-	-	1,553,441
Road Equipment	7,385,081	824,733	279,572	7,930,242
Shop Equipment	158,909	-	-	158,909
Office Equipment	37,801	574	-	38,375
Engineers' Equipment	19,466	-	-	19,466
Yard and Storage	601,188	-	-	601,188
Infrastructure – Roads	15,257,208	1,063,562	-	16,320,770
Subtotal	25,065,158	1,888,869	279,572	26,674,455

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 01/01/06	Additions	Adjustments/ Deductions	Ending Balances 12/31/06
<i>Less Accumulated Depreciation</i>				
Land Improvements	\$ 26,031	\$ 5,207	\$ -	\$ 31,238
Buildings	556,994	34,192	-	591,186
Road Equipment	5,727,627	704,800	276,951	6,155,476
Shop Equipment	147,017	3,115	-	150,132
Office Equipment	35,134	1,562	-	36,696
Engineers' Equipment	18,603	253	-	18,856
Yard and Storage	291,157	15,664	-	306,821
Infrastructure – Roads	<u>3,636,091</u>	<u>733,347</u>	<u>-</u>	<u>4,369,438</u>
Subtotal	<u>10,438,654</u>	<u>1,498,140</u>	<u>276,951</u>	<u>11,659,843</u>
Net Capital Assets Being Depreciated	<u>14,626,504</u>	<u>390,729</u>	<u>2,621</u>	<u>15,014,612</u>
Total Net Capital Assets	<u>\$ 21,082,293</u>	<u>\$ 1,050,483</u>	<u>\$ 2,621</u>	<u>\$ 22,130,155</u>

Depreciation expense was charged to programs of the Leelanau County Road Commission as follows:

Primary Road Maintenance and Preventive Maintenance	\$ 523,131
Local Road Maintenance and Preventive Maintenance	210,216
Equipment Expense	704,801
Administrative	4,862
Allocated	<u>55,130</u>
Total Depreciation Expense	<u>\$ 1,498,140</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS
Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Leelanau County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Local Government Unit. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Leelanau County Road Commission's competitive bargaining units and requires a contribution of 4% of wages. The commission will contribute an additional 10.59%.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS (Continued)

Annual Pension Costs – For year ended 2006, the Leelanau County Road Commission’s pension cost of \$151,992 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2004, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 3.0 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years. The Commission has considered remitting additional voluntary payments for plan benefit conversions during 2006.

Three year trend information as of December 31st follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$ 1,449,102	\$ 1,632,340	\$ 1,811,144
Actuarial Accrued Liability	3,353,746	3,631,325	3,742,264
Unfunded AAL	1,904,644	1,998,985	1,931,120
Funded Ratio	43%	45%	48%
Covered Payroll	1,472,307	1,459,357	1,390,350
UAAL as a Percentage of Covered Payroll	129%	137%	139%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 140,030	100%	0
2004	147,037	100%	0
2005	141,432	100%	0

The Leelanau County Road Commission’s total payroll during the current year was \$1,504,094. The current year contribution was calculated based on covered payroll of \$1,447,296 resulting in an employer contribution of \$151,992 and employee contributions of \$57,891.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2006, the federal aid received and expended by the Road Commission was \$197,007 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local force account projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	Changes in Long-Term Debt			
	<u>01/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/06</u>
Compensated absences	\$ 169,868	\$ 6,994	\$ -	\$ 176,862
Total	<u>\$ 169,868</u>	<u>\$ 6,994</u>	<u>\$ -</u>	<u>\$ 176,862</u>

(1) The change in compensated absences is shown as a net addition.

NOTE 10 - POST EMPLOYMENT BENEFITS

The County Road Commission does not provide post-employment health care benefits, however, a group plan is made available to all retired employees and/or their spouses. This benefit includes a provision that the retiree remit 100% of the cost of the premium. Total costs remitted were \$37,258 for 5 retirees.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2006.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool (the Michigan County Road Association Self Insurance Pool – MCRASIP) currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The pool did not provide an estimate of the amounts of additional assessments or future obligations as of the opinion date.

Required Supplementary Information

Leelanau County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues – Budget and Actual
For the Year Ended December 31, 2006**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Property Taxes	\$ 850,000	\$ 850,000	\$ 849,600	\$ (400)
Licenses and Permits	15,000	13,000	11,610	(1,390)
Federal Sources	500,000	205,000	197,007	(7,993)
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,750,000	1,750,000	1,710,070	(39,930)
Local Road	960,000	960,000	940,900	(19,100)
Snow Removal	194,000	194,000	185,261	(8,739)
Economic Development Fund				
“D” Funds	-	-	3,918	3,918
Forest Road	40,000	40,000	39,753	(247)
Contributions from Local Units				
Townships	65,000	30,000	29,573	(427)
Charges for Services				
State Trunkline Maintenance and Non-Maintenance	720,000	722,000	679,782	(42,218)
Salvage Sales	5,000	1,000	1,253	253
Other	70,000	70,000	14,585	(55,415)
Interest and Rents	107,000	115,000	113,062	(1,938)
Other Revenue				
Gain on Equipment Disposal	58,000	38,000	32,044	(5,956)
Other Funds	<u>-</u>	<u>-</u>	<u>298,500</u>	<u>298,500</u>
Total Revenue	<u>\$ 5,344,000</u>	<u>\$ 4,998,000</u>	<u>\$ 5,116,918</u>	<u>\$ 118,918</u>

Leelanau County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures – Budget and Actual
For the Year Ended December 31, 2006**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation	\$ 781,000	\$ 1,041,000	\$ 1,153,591	\$ (112,591)
Maintenance	500,000	600,000	832,530	(232,530)
Local Road				
Construction	-	-	302,480	(302,480)
Preservation	600,000	250,000	271,223	(21,223)
Maintenance	970,000	1,470,000	1,778,893	(308,893)
State Trunkline				
Maintenance and				
Nonmaintenance	720,000	722,000	606,104	115,896
Distributive	880,000	900,000	-	900,000
Equipment Expense – Net	50,000	50,000	105,169	(55,169)
Administrative Expense – Net	112,000	142,000	225,564	(83,564)
Capital Outlay – Net	<u>840,000</u>	<u>826,000</u>	<u>57,893</u>	<u>768,107</u>
Total Expenditures	5,453,000	6,001,000	<u>\$ 5,333,447</u>	<u>\$ 667,553</u>
Fund Balance – January 1, 2006	<u>1,037,957</u>	<u>1,037,957</u>		
Total Budget	<u>\$ 6,490,957</u>	<u>\$ 7,038,957</u>		

Other Supplementary Information

Leelanau County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,067,550	\$ 2,227,506	\$ 821,862	\$ 5,116,918
Total Expenditures	<u>2,316,104</u>	<u>2,233,933</u>	<u>783,410</u>	<u>5,333,447</u>
Excess of Revenues Over (Under) Expenditures	(248,554)	(6,427)	38,452	(216,529)
Interfund Transfers	248,554	-	(248,554)	-
Fund Balance – January 1, 2006	<u>-</u>	<u>6,427</u>	<u>1,031,530</u>	<u>1,037,957</u>
Fund Balance – December 31, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 821,428</u>	<u>\$ 821,428</u>

Leelanau County Road Commission**Analysis of Revenues
For the Year Ended December 31, 2006**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Property Taxes	\$ -	\$ 849,600	\$ -	\$ 849,600
Licenses and Permits	-	-	11,610	11,610
Federal Sources				
Surface Transportation Program	184,737	-	-	184,737
"D" Funds	4,309	-	-	4,309
Other	7,961	-	-	7,961
State Sources				
Michigan Transportation Fund				
Engineering	6,438	3,562	-	10,000
Primary Road	1,710,070	-	-	1,710,070
Local Road	-	940,900	-	940,900
Snow Removal	92,694	92,567	-	185,261
Economic Development Fund				
Rural Primary (D)	3,918	-	-	3,918
Forest Road (E)	39,753	-	-	39,753
Contributions from Local Units				
Township	-	29,573	-	29,573
Charges for Services				
State Trunkline				
Maintenance and				
Nonmaintenance	-	-	679,782	679,782
Salvage Sales	-	-	1,253	1,253
Other	-	-	14,585	14,585
Interest and Rents	-	679	112,383	113,062
Other Revenue				
Other	-	298,500	-	298,500
Gain on Disposals	<u>17,670</u>	<u>12,125</u>	<u>2,249</u>	<u>32,044</u>
Total Revenue	<u>\$ 2,067,550</u>	<u>\$ 2,227,506</u>	<u>\$ 821,862</u>	<u>\$ 5,116,918</u>

Leelanau County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 1,153,591	\$ -	\$ -	\$ 1,153,591
Maintenance	832,530	-	-	832,530
Local Road				
Construction	-	302,480	-	302,480
Preservation	-	271,223	-	271,223
Maintenance	-	1,778,893	-	1,778,893
State Trunkline Maintenance and Nonmaintenance	-	-	606,104	606,104
Equipment Expense – Net	30,899	49,419	24,851	105,169
Administrative Expense – Net	103,256	122,308	-	225,564
Capital Outlay – Net	<u>195,828</u>	<u>(290,390)</u>	<u>152,455</u>	<u>57,893</u>
Total Expenditures	<u>\$ 2,316,104</u>	<u>\$ 2,233,933</u>	<u>\$ 783,410</u>	<u>\$ 5,333,447</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Leelanau County Road Commission
10550 E. Eckerle Rd.
Suttons Bay, Michigan 49682

We have audited the financial statements of the governmental activities and major fund of the Leelanau County Road Commission as of and for the year ended December 31, 2006, which collectively comprise the Leelanau County Road Commission's basic financial statements and have issued our report thereon dated March 12, 2007. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leelanau County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Leelanau County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in the accompanying schedule of findings and response to be significant deficiencies in internal control over financial reporting 06-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leelanau County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Leelanau County Road Commission in separate letter dated March 12, 2007.

Leelanau County Road Commission's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Leelanau County Road Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Commissioners, others within the Commission, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 12, 2007

Section II – Financial Statement Findings

Internal Control

Segregation of Duties

Finding 06-1

Statement of Condition/Criteria: The Road Commission Clerk performs several functions of receipting, disbursing, and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.

Cause of Condition: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Management's Response: The board has implemented compensating controls to reduce the risks discussed above. Due to changes in auditing standards, this finding was considered a reportable condition in prior reports, however, SAS 112, has revised the term to a "significant deficiency."

Leelanau County Road Commission**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2006**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Project Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:				
Pass-Through Programs From:				
Michigan Department of Transportation (See Note)				
South Lake Leelanau Drive	20.205	STP 0645 (007)	84915	\$ 173,375
CR663/614 from Breithaupt Road to Bugai Road	20.205	STP 0545 (010)	76686	15,671
CR629 West of Densmore Road	20.205	STP 0445 (005)	80463	<u>7,961</u>
Subtotal MDOT				<u>197,007</u>
Total U.S. Department of Transportation				<u>197,007</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 197,007</u>